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Editorial

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EDITORIAL

Specification and Blue Print

It is generally possible for a student and lover of accountancy to regard the progress of his profession with a considerable amount of equanimity and gratification. Nearly all the time there is a forward and upward movement, and anyone who looks back over even a few years will be able to see indisputable proof of the improvement which is taking place. But once in a while there is something that is both painful and discouraging. Such an instance arose two or three months ago in an important county in an important state. It seemed to the authorities of that county to be desirable to have a comprehensive survey and audit of the county's finances, and, in order perhaps to conform to some statute unknown to most of us, it was resolved that there should be an advertisement of what the county required and an invitation to make bids for the work. Somebody in the county offices was imbued with a notion that there should be nothing ambiguous in the arrangements and he devised a scheme of specifications that is, it seems, without parallel in the history of accounting. The document describing the matter consists of sixteen typewritten pages. The history of the authorization for the audit is given, then follows a general description of the kind of audit required, and after that we come to the minute details. Perhaps the most interesting and curious of the specifications is this:

"As elsewhere herein stated, these specifications shall not be construed as limiting the duty of the auditor and the auditor shall do all things necessary to

be done in order to make a thorough audit of the finances of the county; if, however, the auditor finds that work should be performed to which these specifications can not be applied, then it shall be his duty to call that fact to the attention of the commissioners' court, and the court shall have the right to authorize the performance by the auditor of such additional work. If the commissioners' court decides that such additional work is not necessary, or will not be productive of results, the auditor shall have the right to include in his report the statement of the fact that he called attention of the commissioners' court to such additional work. All work done by the auditor, whether specifically set out in these specifications or not, and all additional work done by the auditor, if any, which may be hereafter authorized by the commissioners' court shall be deemed to have been included in the 'estimated' and 'maximum' costs stated in the auditor's bid; and when the 'estimated' and/or 'maximum' cost shall have been reached, even though a part of that cost be for the doing of additional work dealt with in this paragraph, the auditor shall thereafter be paid at the reduced per diem rates herein elsewhere provided for any work in excess of the auditor's 'estimated' and 'maximum' cost to the county."

In other words it seems that the auditor may do anything he wants to do in order to complete his task, but he must not be paid more than a fraction of his stipulated charges.

Twenty Casualties Reported

The advertisement is so comprehensive that it does not seem as though there could be very much left for the accountant to suggest after he had finished all the specified work. The specifications even go so far as to define accountants in various categories and the number of hours in the day, and here we find a provision similar to that which has been quoted:

"The bid shall state the 'estimated cost' to the county of the audit; and shall provide that when this 'estimated cost' shall have been reached the per diem rates applicable for any and all work thereafter shall be thirty per cent. less than the per diem rates specified in the bid.

"A second limit to the cost of the audit should be stated in the bid, to be known as the 'maximum cost'; and the bid shall provide that when this 'maximum cost' shall have been reached the per diem rates applicable for any and all work thereafter shall be fifty per cent. less than the per diem rates specified in the bid."

If there were some other limit above the so-called maximum the accountant might be called upon to pay the county something for the privilege of carrying on. The whole document is one that is repugnant to the professional sense. Probably it was prepared by someone who did not even know that accountancy is a profession. And now, as the saddest item in the whole history, it remains to be recorded that advice has been received that approximately twenty firms of accountants made bids for this work. Such things as these are discouraging it must be admitted, but if all accountants would refrain from participation in any such venture the whole scheme of bidding for professional work in ac-

countancy would cease. We have said this many times before, but the present deplorable incident calls for a repetition of the assertion.

Where Bidding Leads

There is, however, this much more to be said, that the response to the call for bids produced some eloquent results. In spite of the precise and meticulous specifications provided by the county there was a difference between the highest and the lowest of more than 200 per cent. of the latter. The minimum fee in the highest bid was $75,000, and the minimum fee in the lowest bid was $24,900. The maximum fee in the highest bid was $100,000 and the maximum in the lowest was $28,800. Obviously, therefore, those who bid had no notion at all of what they were doing, or at least some of them must have had no notion, because it is inconceivable that there could be so wide a spread between the fees demanded unless at least one group of bidders was entirely misled as to the nature of the work. We can not remember a more impressive demonstration of the utter fallacy of bidding for professional work than this case which is now before us. If there had been a difference of five or ten per cent. between the fees demanded by different firms one would think that the bidding was animated by at least some fair idea of the work to be done. In the present case, however, there is no possibility of such an interpretation. The whole thing looks like guessing, and guessing may become an expensive pastime. On the other hand if there had been no bid the county would have been compelled to engage an accountant upon a decent and professional basis and probably would have paid less in the long run than it will have to pay under the plan which it chose to adopt.

The Bethlehem-Youngstown Appeal

In the February, 1931, number of THE JOURNAL OF ACCOUNTANCY we discussed the decision of the court of common pleas of Mahoning county, Ohio, granting an injunction against the proposed merger of the Bethlehem Steel Corporation and the Youngstown Sheet & Tube Company. It will be recalled that while an appeal was pending from this decision the Bethlehem corporation decided not to proceed with the merger, and the main issue involved in the case thereupon became moot. However, efforts of the plaintiffs to collect costs from the Youngstown company led to further proceedings in the court of appeals for the

seventh district of Ohio; and that court has now handed down a unanimous decision which, in effect, reverses that of the lower court. The court of appeals found that the merger proceedings were properly carried through, that the proxies attacked by the plaintiffs were valid and the vote cast was properly counted by the inspectors of election, and that there was nothing to prove that "there was any fraud practised by the directors or anyone else favorable to the merger in this case which tended fraudulently to influence the stockholders to vote in favor of the merger," and concluded that "the plaintiffs had no right to maintain an action enjoining the completion of this sale." Incidentally, the court adopted a view of the duty of directors entirely different from that of the court below. In the course of its decision the appellate court said: "It is further urged that Youngstown's board of directors did not give the proposition to sell all of the property of Youngstown the consideration that they should have given it. [This was substantially the view of the court below.] It is true that the board did not go into the auditors' figures, but they would not have understood them, perhaps, if they had . . ."

The Part Played by Accountants

In our comment of February, 1931, we referred to language used by the trial judge in relation to three eminent accounting firms which had played a minor part in the trial. It is particularly gratifying to note that the appellate court differed from the court below on this question, also, and adopted a view substantially in accord with that expressed in our editorial. Inasmuch as we then quoted the language of the trial court, it is only just to quote the following paragraph from the decision of the court of appeals:

"The next error complained of is that Youngstown and Bethlehem secured three public accountants to make an examination of the proceedings of Price, Waterhouse & Co., and determine whether they were correct or not, that the report sent out deceived the stockholders, that it purported to be a complete audit of these two companies, and finding that the result reached by Price, Waterhouse & Company was not unfavorable to Youngstown. We do not think that this is a fair criticism of this report. The second paragraph of the report sets out what these companies considered in arriving at the conclusion that they did. The report of the three accountants did not claim that they had made an independent audit of the books of Youngstown and Bethlehem.

These accountants were employed after Mr. Eaton had made charges that the audit of Ernst & Ernst showed serious mistakes in the work of Price, Waterhouse & Co. . . ."

The opinion then goes on to discuss the campaign material that was issued, and concludes: "We do not think we need go further in referring to these claims of fraud than to say that we are unable to find that the members of the board or others who were in favor of the merger overstepped their rights as stockholders."

A Lawyer Who Would Advertise

A highly esteemed accountant, in a western city, sends us the text of an article written by a lawyer, in which the author attempts to resuscitate the subject of advertising by professional men. He argues that the present condition of the professions justifies a departure from the tradition which makes advertising, in the case of professions, taboo. As far as we can follow the argument of this author, it is to the effect that the people who originally opposed and continue to oppose professional advertising are really those who have achieved success and to whom practice naturally gravitates by force of example. He maintains that the young lawyer, or other professional man, should be permitted to tell the world that he is ready to do the world's work. From this point he proceeds to contend that the public should be informed. Apparently not to advertise is to rob the public of information to which it is entitled. This is a threadbare subject and it should not be necessary, one would think, to reply at any great length, but as our correspondent believes the matter to be of importance it may be permissible to discuss the views of a man who believes that professions should advertise, within certain limits—but the limits are not set. Suppose, for the sake of argument, that the lawyer's thesis be accepted and it be admitted that a professional man may advertise his professional services. Of course, we do not admit anything of the kind, but it is sometimes interesting to deal in considerations of pure imagination. Suppose a lawyer may advertise, what is he to say? How is he to express his advertisement? It would be very instructive to learn from the author of this sapient article what a lawyer has that he can advertise. He may have some second-hand furniture or perhaps an automobile which he no longer cherishes. He may advertise these things and say that they are whatever they are, but that is not professional advertising.

Presumably, he may advertise his professional services. Well, how? He certainly can not permit himself to compare his own abilities with those of his competitors—in this case "competitors" seems to be the right word. If he publishes what is called a card, what possible good can it accomplish? If he describes himself as proficient in special fields of legal work what can he gain? Would anyone for a moment be attracted by any kind of advertisement which could be prepared descriptive of the abilities and facilities of the lawyer? If the answer is No in the case of the law, how much more indicative of the fallacy of professional advertising is the argument when it is carried over into the profession of medicine and surgery.

What Shall the Advertiser Say?

Some of these very vocal proponents of professional advertisement are overlooking, as they have always overlooked, the obvious question of how to advertise if advertising be allowed. Perhaps our correspondent will ask the author of the article which he sends us what he considers to be a good, productive and ethical advertisement for a lawyer. He may then go a little further and ask a physician to write an advertisement of his practice and capabilities. We know what the accountant who advertises will say, because he has already said it on many pages, for the expenditure of many dollars. If the other professions can not think of any better advertising than accountants have so far devised they would be wise to pause before embarking upon a campaign of advertisement. Some accountants have devoted a great deal of attention to the production of what they claim is educational advertisement. Most of it is utter rubbish, and the effect of it all, so far as we have been able to ascertain, is injurious to the profession as a whole. There might be, perhaps, less condemnation of an accountant who advertised than of a lawyer or a physician who fell into evil ways of that sort, because the accountant is more recently admitted to the ranks of the professions and he might be expected to carry with him a little taint of his unprofessional and unregenerate days. And yet the truth of the matter is that accountants, members of this newest of important professions, have been the most rigid in some ways in their codes of ethics. In the one subject of advertisement there is still a slight difference of opinion between a small minority which favors advertising and the vast majority which damns

it. Among the members of the bar there should be no such lack of unanimity. At any rate, let the lawyer who believes that lawyers should advertise write an advertisement and send it to us. We promise to publish it without charge, but of course we should be compelled to omit the name of the advertiser because it would be quite reprehensible to assist anyone down hill.

The Young Practitioner Would be Out-Advertised

There is another plea made by the author of the article, namely, that the young lawyer and, of course, by inference all young professional men should be allowed to advertise so that they may force themselves into the forefront of fame and be given an equal opportunity with men who have established themselves by years of experience and high repute. Well, if there be any force at all in this we can not discover it. It has been explained time and time again that if all lawyers were permitted to advertise there would doubtless arise a competition in advertising. Even those who deplored the practice might find themselves compelled to participate. Now if that were so, the chance of the wee man to make himself heard above the tumult would be small indeed. The large firm could make a great deal more noise over a wider area than the little fellow who had few resources; and the outcome would be an even greater disparity between the opportunities of the known and the unknown practitioners. As a matter of common sense it seems evident to us that the restrictions against advertising by professional men are chiefly helpful to those members of the professions who have not yet reached success. When there is a general abstention from advertising the well known and prosperous firm or individual practitioner is precluded from announcing the fact of success, which is really about the only thing one could advertise, and, so far as the public seeking the services of a professional man are concerned, the little fellow has a much better chance than he would have if there were promiscuous ballyhoo by a whole profession. These are not idle theories. They are hard truths. The people who urge the abrogation of ethical rules against advertisement are generally of two classes. The first and most important is composed of people who have advertising space to sell, and the second consists of a disappointed group of men who have not been able to arrive. They, searching about for some method of improving their position, are driven to the

forlorn hope that in advertising lies the way to accomplishment. These are days when straw votes and informal ballots are much in the public mind. They are good things, in a way. It might be interesting for the members of the legal profession to be invited to cast a ballot on the proposal that lawyers be permitted to advertise. Similar questionnaires might be sent to physicians, accountants, architects and members of all other professions. It is, of course, absurd to predict what any ballot would reveal, but we are firmly convinced that there is not a worthy profession in the land which would not vote down by an overwhelming majority any proposal to place it on the commercial plane which advertising connotes. And careful analysts of the matter would doubtless find that there was no sound reason in favor of so retrogressive a suggestion.

Why Not Make It Unanimous?

As an illustration of the joys which accompany the editorial function, but, more important yet, as an example of a perfectly logical pursuit of an argument, it is a pleasure to present the following letters which have passed between a correspondent whose name is omitted for reasons which the correspondent explains and the editor of THE JOURNAL OF ACCOUNTANCY. The question of bidding for professional work is one that has been damned times out of number in these pages. There is nothing new that we can say on the subject, but the correspondent who prefers anonymity for the "honor of his ancestors" has said something which is original:

Within the past six months five building and loan associations in this and a neighboring city have passed into the hands of receivers. Investigation of their affairs reveals that every one of them has been honeycombed by graft and embezzlement for years. Although widely advertising themselves as being "under state supervision" it develops that the state failed to "supervise." I am auditing one of them for the receiver, who by the way is a lawyer, and I find no record of the association's having been examined by the state department or anybody else during the ten years of the association's existence. Such is the potency of state "supervision."

You will probably be interested to note a clipping from the law enacted in 1931, amending the old law which had years ago placed the supervision of all building and loan associations under the secretary of state's office. That office provided one (count 'em, one) clerk for that purpose. This new law of 1931 provides certain qualifications for the commissioner, among which is the provision that he shall be an "accountant." Just what an "accountant" is nobody seems to know. You will also no doubt be greatly incensed at the reckless extravagance of our state legislators in setting up a schedule of such exorbitant examination fees as listed in the attached clipping. [The fees range from $40 to $490.—EDITOR.]

Furthermore, a district judge, before whom one case was brought asking for a receivership, is now proposing to advertise for bids for an audit in order to

acquaint the receiver with the exact status of the defunct company. I wonder if he will also advertise for bids on the receiver and the attorney for the receiver, and, on that same basis, why shouldn't the people advertise for bids on the district attorney and the district judge?

Possibly it might be a good idea to carry the idea a little further and advertise for bids for governor.

The next time I approach the matrimonial altar, or, in order not to create any misunderstanding at home, maybe I should say, if I have it to do over again I am certainly going to advertise for bids among the preachers, and the next time I send the kids to bed for making pigs of themselves at the dinner table, and have the last four pork chops all to myself, I am going to advertise for bids among the medical profession of the community. When I near the end of my allotted three score years and ten the undertakers (I beg your pardon, I meant morticians) are going to be asked to submit bids, in order that I may rest in peace, with the assurance that I have not been made the victim of some unscrupulous chap who thought he had the field all to himself and charged accordingly. And when I meet St. Peter at the gate I am going to say to him, "Now look here, I have taken due precaution with my worldly affairs all my life and my favors have gone to the lowest bidder always. Now, if you want me for a tenant you're going to have to submit a sealed bid to be opened on the 25th of next month or I'll go to . . ." Oh, well, that's a long way ahead, and maybe I should take a little time.

To which the editor replied:

When I returned to the office this morning I found your letter of July 20th, and I think I should like to publish a part of it in THE JOURNAL OF ACCOUNTANCY.

Do you wish your name to appear, or is Modesty standing in the way?

The correspondent's second letter follows:

If you wish to publish any part of my letter of July 20th it will probably reflect less discredit on my ancestors if my name does not appear.

The district judge mentioned had his plans rudely interrupted before the day set for opening the bids for the audit. He made the mistake of appointing a business man as receiver after his first appointee, a lawyer, had been ousted by demand of the depositors' committee. The new receiver promptly informed said judge that he preferred to choose his own auditor, and so the bids were never opened. And there we lost a job, because certainly no learned judge could have resisted our offer to do a perfectly beautiful job of artistic auditing for 10 per cent. less than the next lowest bidder.

This bidding proposition is a sure thing if only you know how to go at it (and the biddee is willing to take all the chances in the world).

What When the Horse Won't Drink?

Following publication of editorial comment in the August issue of THE JOURNAL OF ACCOUNTANCY several letters were received from readers drawing attention to what they believed to be the ignorance of bankers with reference to the pamphlet *Verification of Financial Statements*. One correspondent draws attention to the monthly *Bulletin* of the Robert Morris Associates for November, 1930, reporting a meeting of the committee on coöperation with public accountants, in which it was revealed that some bankers at least had no acquaintance at all with this highly important document. Another correspondent

writes us further and reports that he has made a somewhat thorough search. In his letter he says:

"For your information I have as a graduate student at the university of ——— conducted an inquiry into the matter of uniform balance-sheets. Particular reference was made to the study of the adoption of the uniform balance-sheet as recommended in the *Bulletin*. As your subscriber is probably aware the first *Bulletin* was issued in 1917, the 1929 issue having been enlarged and changed in some particulars.

"In undertaking this work I assembled research material from the following sources:

"1. Credit forms of 500 banks well distributed as to locality, size and type of banking.

"2. Annual reports from all companies listed in the Dow Jones industrial, rail and utility averages.

"The credit forms were carefully studied as to form and information required. The reports were examined for form and information submitted.

"As a result of this study the following conclusions were made:

"1. Of the 500 bank credit forms examined not one was in the form suggested by the federal reserve board. Not one of the federal reserve banks had adopted the suggestion of the board. Only 11 of the forms were uniform and these were from controlled or chain banks. (Even these did not conform to the *Bulletin* recommendations.)

"2. Of the annual reports the railroads were, by force of law, compelled to use the form prescribed by the interstate commerce commission. The industrials had their own particular forms. A few of these bore faint resemblance to the recommended form. The utilities, particularly the holding companies, had their own particular forms.

"The results were so surprising that I felt there must be a substantial reason for the non-acceptance of the recommendations of the board by the banks, the companies and the accountants.

"I therefore began to question the above groups and found that unfortunately they exhibited a surprising lack of knowledge regarding the uniform form. (This, of course, was not true of the accountants.) Upon further examination I found that many companies had persisted in using a form that had been adopted years ago in making their annual reports to stockholders and that the companies did not desire to make a change. The accountants were therefore in the position of being forced to make the same form of statement year after year. Now as to the banks. After a careful study of the credit forms and the credit systems of the 500 banks I believe that I can confidently state that most bank credit forms like Topsy 'just grew up'. Similarity in forms of banks in the same localities leads me to conclude that after a credit department was instituted in one institution another following would ask about the forms the first bank was using and that those forms would be adopted by the bank seeking the information. There are always exceptions to every conclusion that is broad in nature. Many banks are now thoroughly interested in the form of the credit report and necessity is again mothering an improvement.

"I was greatly surprised that the federal reserve banks had not followed the recommendations of the federal reserve board. Upon contact with officers of the member banks I found that they considered the reserve bank as performing a discount function entirely and that they looked more to the bank seeking the rediscount than to the stability of the firm to which credit had been extended. Personally I believe that the federal reserve board has set the example of a uniform balance-sheet. The reserve banks have not followed the example. If they did they could exert a powerful force toward uniformity of reports submitted to their member banks.

"The thought has been suggested that uniformity stifles initiative. I disagree with this view. Uniformity tends to set a lower standard only when

laziness enters. Uniformity does establish a minimum standard below which none can go. Initiative will tend to raise the standard so set.

"I believe that the results of the survey indicate that an intensive educational campaign could and should be conducted by organized accounting groups among the bankers and their borrowers. The accountants are well equipped both as to education, training and judgment to lead the way."

However, He Can be Led to Water

It would be unfortunate indeed if the conditions revealed by our correspondents were prevalent throughout the country. It seems incredible that a document recommended strongly by the federal reserve board, published by that arm of the government, republished by the Robert Morris Associates, which is the association of credit men of the banks, and, of course, repeatedly mentioned by the American Institute of Accountants, which was the original author—it seems incredible, we repeat, that such a document should not have been known and carefully studied by men whose business it is to conduct the banking industry of the country. It is difficult to know what can be done to make them read. In discussion with bankers to whose attention this supposed condition has been brought there is always the same reply, "You can't make people read and you can't make all men wise." This is true enough, but it does seem, particularly in times like the present when so much of the peace and happiness and future prosperity of the whole country depends upon the wisdom and perspicacity of bankers, that they would leave nothing unlearned that could be learned to assist them in the conduct of their labors. If they will not listen to their own supreme authority, the federal reserve board, to whom will they pay heed? We confess that we have very little sympathy with any banker who wilfully or unconsciously overlooks the means of grace which are presented for his assistance and guidance. The federal reserve board can not insist perhaps that any banker or so-called banker shall do any one of a number of things which the board can recommend, but the public has rights and the public should insist unequivocably that men who undertake to handle finance shall at least be familiar with the underlying principles.